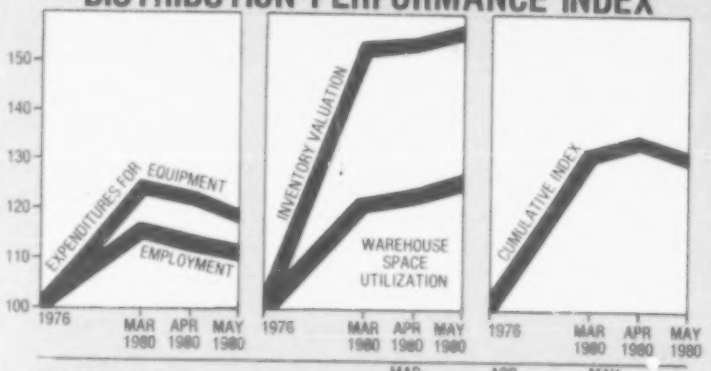
DISTRIBUTION PERFORMANCE INDEX



CATEGORY	1976	MAR 1980	APR 1980	MAY 1980
Expenditures for equipment	100	123.3	122.2	119.9
Employment	100	115.3	112.0	111.0
Inventory valuation	100	152.3	153.1	155.0
Whse. space utilization	100	121.1	122.5	125.0
Cumulative index	100	131.3	134.0	131.0

Beginning with the April installment of the DISTRIBUTION INDEX, performance figures are shown as index numbers rather than percentages. Also, changes are now reported on a monthly basis rather than quarterly. The base year for the index is 1976. This means performance figures for the various segments of the distribution industry were set at 100 in 1976. The current index numbers reflect changes relative to these levels. We hope the index figures will make the DISTRIBUTION INDEX easier to understand and more useful.

The economic news for the month of April and May indicates that the economy is in for more of the same—spiraling prices and rising interest rates. The predicted economic slowdown is finally beginning but economists feel that it may be longer and deeper than originally anticipated. Activity in the distribution industry is and will continue to slowdown during the two month period. The index for the month of April, 1980 will reach 134.0, a small increase over March's level of 131.3, but it is forecasted to drop to 131.0 in May, signaling the beginning of the anticipated slowdown. The current slowdown has taken a long time to materialize, for the economy fell off slightly in the latter part of 1979, only to make a moderate rebound in early part of 1980. Key indicators of activity in the distribution continue to show signs of decay. Expenditures for materials handling equipment for example has declined steadily since March, 1980 falling from a level of 123.3 to a forecasted 119.9 in May. Employment in the industry has likewise fallen from a level of 115.3 in March to a forecasted May level of 111.0. As one distribution manager stated "Laying off somebody is not easy for me to do. It seems that our employees become victims of the economic system. It becomes a necessary evil during periods of slowdown."

The inventory valuation index for the April-May period indicates that shippers are continuing to raise prices. Inventory valuation rose from a March level of 152.3 to a forecasted level of 155.0 for the month of May, 1980. Warehouse space utilization continues to increase with shippers forecasting it to reach the 125.0 level in May. Warehouse space utilization is forecasted to be lower in May than in April. The reason for this change is that shippers are holding their inventories down because of high interest rates. As one distribution accountant stated in the survey "We just can afford to finance high service levels anymore. Customers will just have to wait for delivery. If not, to hell with them."

The April index reports that shippers are extremely skeptical about the future. They are uncertain about which way to go and are in a holding pattern with regard to their inventories and distribution activity. Customer service seems to be the critical element in distribution planning in the second part of year. Previously established service levels may have to be changed in light of the current economic slowdown.

WHO USES WHAT IN WAREHOUSING?

The shortest distance between a manufacturer and a consumer is a line that inevitably runs through a warehouse. It's a rare widget that pops off the assembly line to immediately board transportation which takes it directly to a customer.

DISTRIBUTION's survey of 2246 distribution professionals in U.S. manufacturing found that different industries use private and public warehousing in differing mixtures. Though this conclusion is hardly a surprise to anyone, the specifics of which industries use each type of warehousing may offer some insights.

Overall, 57 percent of the respondents said their companies operate one or more private warehouses. And 60 percent of the same group noted their companies use public warehouses.

A look at specific industry groupings, however, shows diversity in the use of warehouses, both private and public.

For example, the heaviest users of both private and public warehouses are in the food and tobacco industries. Of all respondents, 347 fit into the food and tobacco category. Some 64 percent of this group said their companies operate private warehouses, while 81 percent said their companies use public warehouses.

The seasonality of food distribution, due to the growth seasons as well as fluctuating demand, logically calls for heavy use of public warehouses on an as-needed basis. The high degree of operation of private warehouses is likewise expected, since food storage often requires strict temperature controls and rigid, regulated standards in warehousing.

At the opposite end of the warehousing spectrum are the durable goods industries—makers of metal, metal products, non-electrical machinery and transportation equipment. Some 541 respondents said their companies fit this category. Of these, 44 percent said their companies operate private warehouses and the same percent—44—said they use public warehouses.

Once again, the figures are less of a surprise than they are a confirmation of what should logically be expected. The durable goods made by these manufacturers are usually built during long lead times between the order and the delivery of product.

Between these two categories lies the remainder of U.S. manufacturing industries. As we move from one industry to the next, the percentages see-saw back and forth between private and public warehouse use.

As the accompanying table shows, however, there is usually a correlation between use of private and public warehousing.

For example, the chemicals, petroleum, rubber-plastics, stone, clay and glass group of manufacturers are heavy users of both public and private warehousing.

This group is comprised of 560 respondents, 64 percent of whom say their companies operate private warehouses and 70 percent of whom say their companies use public warehouse space.

In terms of percentage use, the next ranking group of industries includes companies dealing in lumber, wood, furniture, paper, printing and publishing. Of 302 respondents in this category, 61 percent use private warehouses and 61 percent use public warehouses.

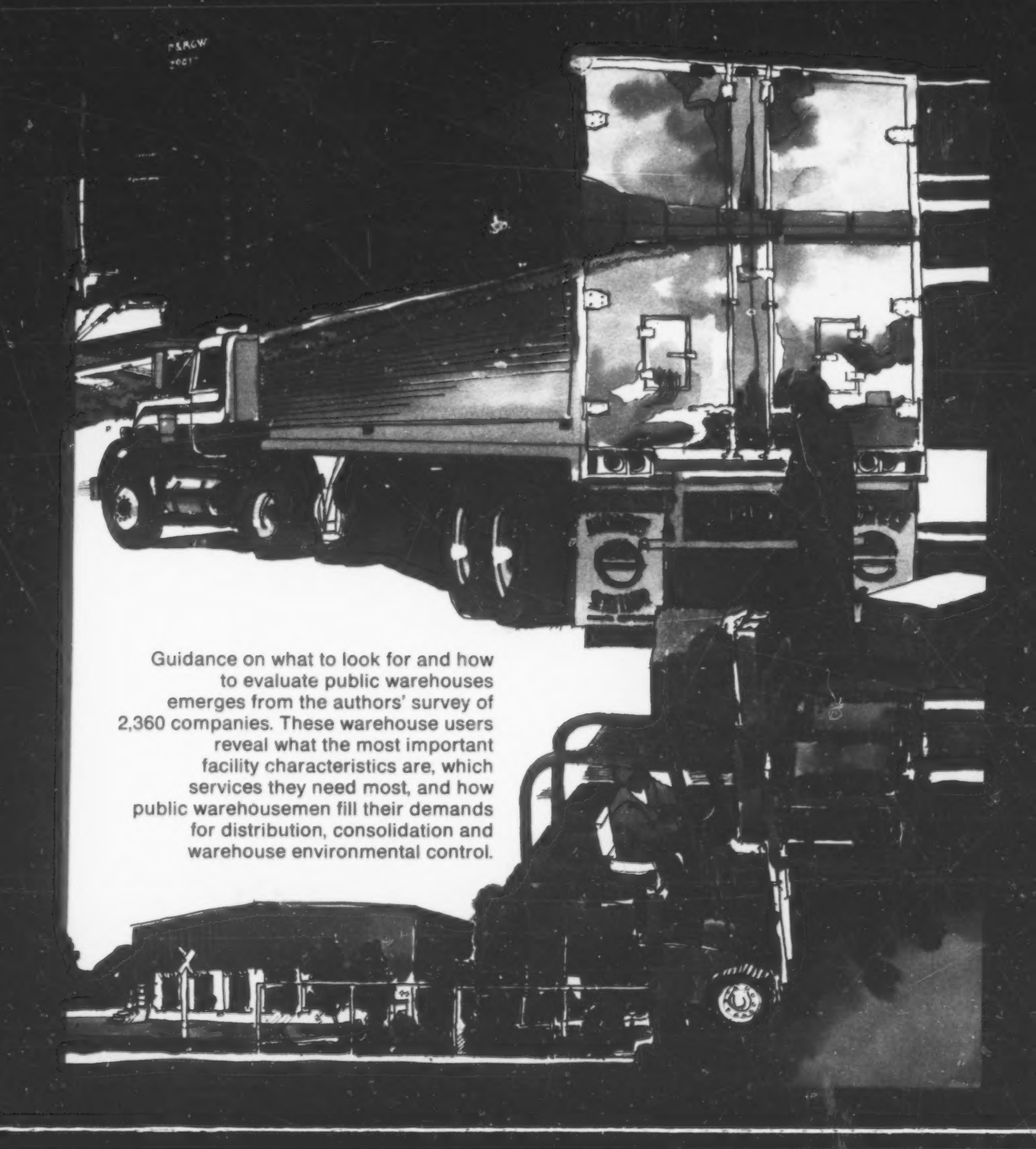
The group made up of textile, clothing and leather manufacturers violates the correlation of warehouse use. The 122 respondents in this group are comparatively heavy users of private warehousing (65 percent) and light users of public warehousing (41 percent).

Elsewhere in this issue are dissertations on public warehousing (page 42) and leasing of warehousing (page 51). As these articles indicate, the distribution professional who is looking into warehousing tends to think in terms of public *versus* private warehousing.

That adversary situation applies only during the decision-making process, our survey indicates. Once the decision is made and the time comes to get to work, U.S. manufacturers think of private and public warehousing, combined. □

WAREHOUSE USE BY INDUSTRY

Respondent Industry	Base (#)	% of respondents saying their company: Operates Any Private Warehouse	Uses Any Public Warehouse
Total Respondents	2,246	57%	60%
Food/Tobacco (SIC 20, 21)	347	64%	81%
Textiles/Clothing/Leather (SIC 22, 23, 31)	112	65%	41%
Lumber and Wood/Furniture Paper/Printing and Publishing (SIC 24, 25, 26, 27)	302	61%	61%
Chemicals/Petroleum/Rubber-Plastics/Stone, Clay, Glass (SIC 28, 29, 30, 32)	560	64%	70%
Metals/Metal Products/Non-Electrical Machinery/ Transportation Equipment (SIC 33, 34, 35, 37)	541	44%	44%
Electrical Machinery/ Measuring, Analyzing, Photographic Equipment (SIC 36, 38)	294	54%	55%
Miscellaneous Manufacturing/ Other (SIC 39)	250	53%	53%



Guidance on what to look for and how to evaluate public warehouses emerges from the authors' survey of 2,360 companies. These warehouse users reveal what the most important facility characteristics are, which services they need most, and how public warehousemen fill their demands for distribution, consolidation and warehouse environmental control.

By **JAMES R. STOCK**, Ph.D, Assistant Professor of Marketing, University of Notre Dame
and **EARL A. CARRARA**, President, USCO Services, Inc.

In *Distribution Worldwide*, May 1974, Professor Bernard J. LaLonde reported the results of a study designed to learn from the users of public warehousing what factors were important in the decision process relative to the use of public warehousing space. Dr. LaLonde presented his conclusions in the form of four propositions:

Proposition #1: There will be significant changes in user demands of the public warehouseman during the 1970s.

Proposition #2: The public warehousing selection decision on the part of the user is becoming an increasingly sophisticated decision both in a financial and systems context.

Proposition #3: The public warehousing industry will grow to the extent that public warehousing operators help customers solve distribution problems in an economical and efficient manner.

Proposition #4: The public warehouseman must view himself both in business philosophy and business operations as an extension of his customers distribution systems.

Supported by a recent study of public warehousing users and non-users completed by the University of Notre Dame, the conclusions reported by Professor LaLonde seem just as appropriate today, some six years later.

This article is part of a comprehensive study recently completed which examined the status of the public warehousing industry. The portion of the study reported on in this article focuses on what users and non-users thought about the services offered by the public warehousing sector.

A total of 2,360 firms were asked to identify their perceptions on such issues as the cost of public warehousing relative to other warehousing alternatives, the importance of various distribution services in the selection of a public warehouseman and identification of public warehousing companies that could be considered "leaders" in the industry.

Because of concern over the future of the public warehousing industry due to inflation, energy shortages, government regulation, general economic uncertainty, and other factors, it was felt that the firms surveyed in this study should be those companies projected to exhibit real growth during the early part of the 1980s.

Those growth industries (and firms) would, by necessity, require additional warehousing services during the next several years. From the perspective of a public warehouseman, those industries would represent the "future" markets for the public warehousing industry.

Generally, most respondents felt that public warehousing costs more or else they didn't know. Usage level did not appear to change that perception, although many regular users of public warehousing perceived that it costs less (32.0%) or costs about the same (29.3%).

This is particularly informative in that as usage level increases, the public warehouse user finds that alternative equally as attractive as private warehousing. In many instances the public warehouseman can provide storage space (plus other services) cheaper than a private facility.

FACILITIES

Many studies of public warehousing have asked companies to rate the importance of various services, products, etc. Unfortunately, such information is not always useful to the public warehouseman because it is difficult to determine with a "level of importance" measure whether or not a potential customer will or will not use a public warehouse if the service or characteristic is absent or lacking.

In the mail survey used in this research study, respondents were asked to indicate the necessity of each item, using a three-point scale: Absolutely necessary; Important, but not absolutely necessary; and Not important and not necessary.

The use of such a scale would indicate whether a firm would consider public warehousing if a specific service or characteristic was or was not present. Obviously, for those present and potential customers of public warehousing it is important that the company offer those services/characteristics rated by their target markets as "Absolutely necessary."

Table 1 shows perceptions of the importance of nine facility characteristics.

Potential public warehousing customers consider the protection of their product extremely important, as evidenced by the large number of respondents who considered sprinkler systems and security systems as being absolutely necessary or very important.

A significant portion of the survey respondents considered the availability of pallet racks and special handling equipment as important and/or absolutely necessary.

With respect to location, a significant minority of companies felt that a suburban location was superior to a downtown location.

Many public warehouses presently do not offer office space on premises, although 11.0 percent of public warehousing customers felt that the availability of office space was absolutely necessary.

SERVICES

In recent years, the public warehouseman has evolved into a company which provides many distribution services in addition to product storage. Table 2 identifies some of the more important warehouse services which customers are demanding and which the modern public warehouseman is offering more frequently.

Lease of specific blocks of space, pool distribution, shipment consolidation and preventive sanitation programs were considered important by public warehouse users and nonusers. Temperature and humidity control systems were also considered very necessary by the potential target industries.

An ability to handle hazardous materials and store bulk commodities was thought necessary by a significant number of firms. However, for most public warehousemen, additional facility expense would be required to store/handle such materials. Also, the impact that those types of products being stored would have on existing customer's products is unknown. A potentially negative effect might result.

Packaging and labeling capability is considered to be absolutely necessary by almost 20 percent of the responding firms. There is a concept in marketing called "functional shiftability" which states that marketing/distribution functions can be shifted within the channel of distribution but cannot be eliminated. Traditionally manufacturers have packaged and labeled their prod-

ucts in-plant. However, with the proliferation of products (sizes, styles, assortments, branded and unbranded) in recent years, manufacturers have been forced to carry larger amounts of inventory in order to effectively service their customers.

Because the public warehouseman is generally a "step closer" to the final customer in the channel of distribution, it is possible for him/her to assume the packaging/labeling function and thereby reduce the total amount of manufacturers' inventory while at the same time improving order cycle time (through quicker response time). Presently, very few public or private warehousing operations have a packaging/labeling capability. This is a need that exists in almost every industry.

TRANSPORTATION

Five aspects of transportation service are identified in Table 3. Although respondents felt that it was a definite advantage for a public warehouseman to own or manage local cartage service, the presence of good working relationships with the various transport modes was considered sufficient.

Generally, good rail service was perceived to be less essential than good motor carrier service. In fact, a majority of respondents felt that access to good rail connectors and direct service by a specific rail line were not important and not necessary in their decision to select a public warehouseman.

Over two-thirds of the respondents indicated that the availability of warehouse-owned or -managed local cartage was important or absolutely necessary. Control over local cartage can be a significant marketing advantage in a highly competitive market.

CLERICAL SERVICES

Table 4 shows that clerical services were extremely important to those firms considering the use of public warehousing.

As mentioned earlier, the modern public warehouseman provides much more than storage space. Increasingly, the users of public warehousing are demanding a variety of clerical services that traditionally were performed elsewhere in the

TABLE 1 **IMPORTANCE OF FACILITY CHARACTERISTICS IN SELECTING A PUBLIC WAREHOUSEMAN**

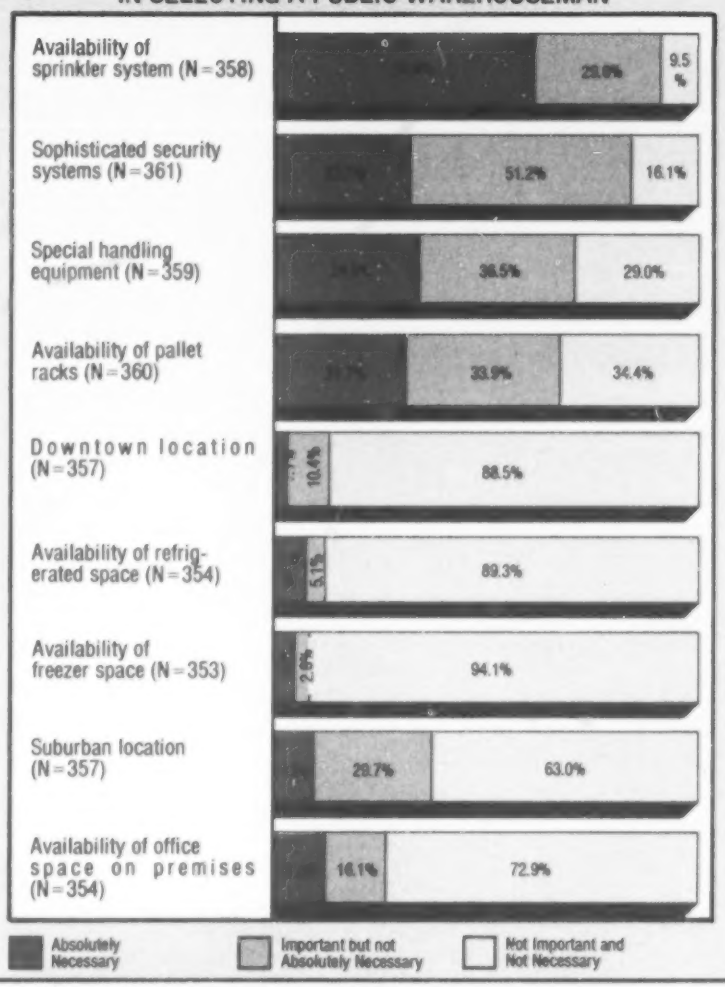


TABLE 3 **IMPORTANCE OF TRANSPORTATION SERVICES IN SELECTING A PUBLIC WAREHOUSEMAN**

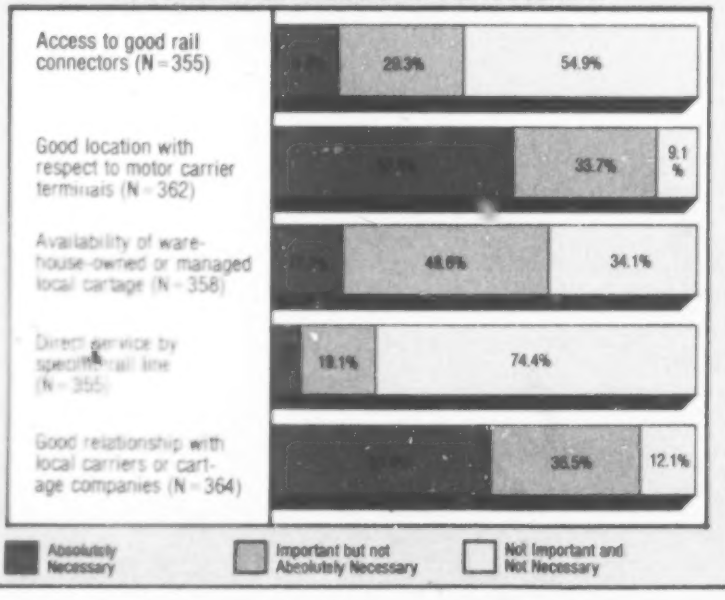
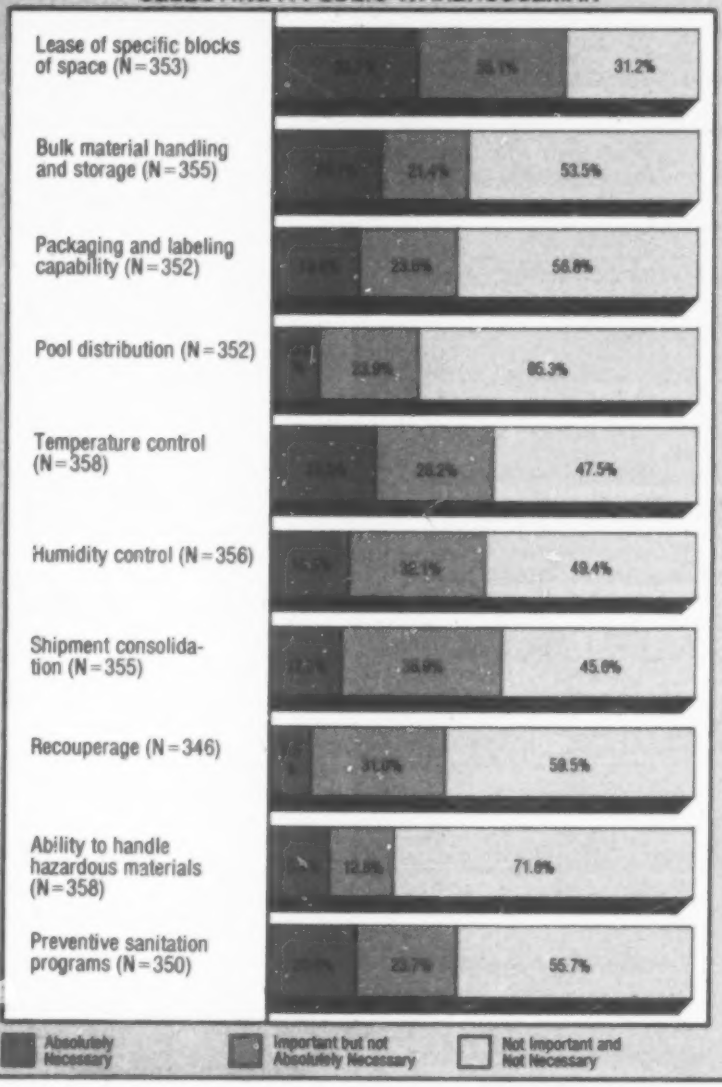


TABLE 2

IMPORTANCE OF WAREHOUSE SERVICES IN SELECTING A PUBLIC WAREHOUSEMAN



MODE USAGE OF RESPONDENT FIRMS

Mode	Number of Firms Using Mode		Mode	Number of Firms Using Mode	
Common or Contract Motor Carrier	408	75.7%	UPS/Parcel Post	321	59.6%
Common Rail Carrier	114	21.2%	Private Carrier	179	33.2%
Assigned/Owned Rail Fleet	18	3.3%	Freight Forwarder	155	28.8%
Common or Contract Air Carrier	212	39.3%	Other	49	9.1%

channel of distribution (the concept of "functional shiftability").

Firms require a lot more information today than in past years—and a lot more sophisticated information too. The availability of computer equipment "on-site" is a definite "plus" factor.

A computer software system, supported by the appropriate hardware, will become even more important in the future as the public warehouseman assumes more clerical functions. The optimal system should have the capacity to perform traffic management functions (rating, routing, mode/carrier selection), inventory control (report inventory levels, prepare out-of-stock reports) and accounting functions (billing, payments).

MISCELLANEOUS

Most companies do not consider public warehousing cost as the sole criterion for selecting a particular warehousing firm. Service factors, as indicated previously, are vitally important to today's public warehouse user.

Of course, costs are still very important and will continue to be, given the need for firms to be cost efficient in order to remain competitive.

As shown in Table 5, there are advantages of being the public warehouseman with the "lowest rates in town," but not all firms select the cheapest warehouse in which to place their products. What is important is that a public warehouseman be competitive with its rates and if they're higher, be able to cost justify them to prospective clients.

Related to this item is an ability to provide rate quotations on any basis. At a minimum, a public warehouse should be able to quote rates on a square foot, pallet or cubic foot basis.

However, few warehousemen quote rates for basic storage, storage plus all the extra services, *or* the services alone. Today, an automobile purchaser can buy the car of his/her choice with no options, with every option or anywhere in-between. They also know exactly how much each option will cost and they can then make an intelligent, rational decision on which option(s) to purchase.

TABLE 4

IMPORTANCE OF CLERICAL SERVICES IN SELECTING A PUBLIC WAREHOUSEMAN

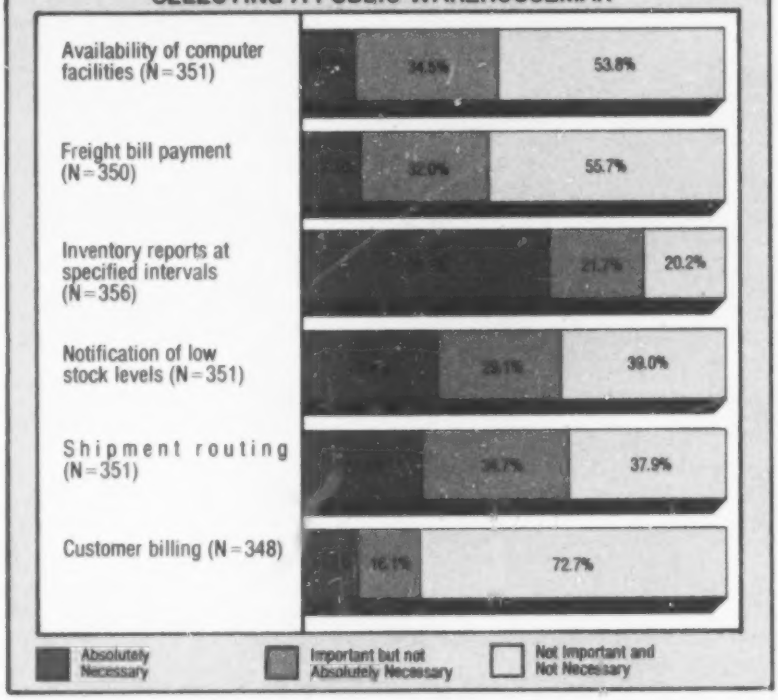
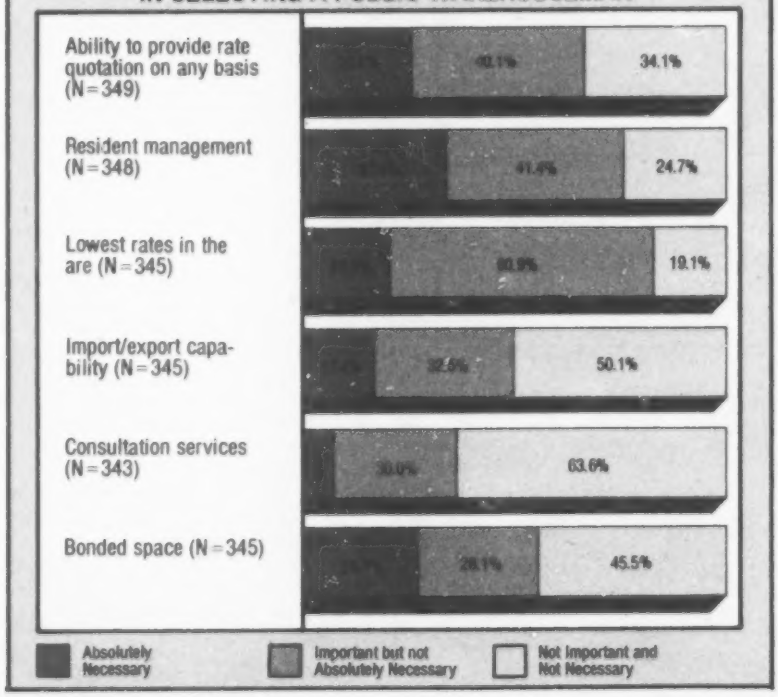


TABLE 5

IMPORTANCE OF MISCELLANEOUS FACTORS IN SELECTING A PUBLIC WAREHOUSEMAN



In most public warehouses, the buyer (user firm) generally orders his "car" in only two ways—basic storage only or basic storage plus all the options. There usually is no in-between. Such a situation is analogous to Henry Ford's statement of several decades ago: "You can have any color you want . . . as long as its black!" Many users of public warehousing are paying for services they don't need and some companies would rather place their products in public warehouses that offer less services than they really require, but at a lower price.

The philosophy of "one price fits all" is fast becoming obsolete. The public warehouseman of the future will have a price list which specifically identifies the various rates being charged for each of the services being offered. Adoption of such a pricing strategy by a firm in today's market would place that public warehouse in a leadership position within the industry.

The availability of resident management and consultation services is looked upon favorably by the potential target industries. Additionally, the availability of bonded space and import/export capability were considered vital by almost one-half the respondents.

IMPLICATIONS

Public warehousing is a highly competitive, fragmented industry that will continue to demand the most from those companies attempting to remain or become leaders in the industry. When respondents were asked to identify the public warehousing companies they considered "leaders" in the industry a total of 91 firms were mentioned. In no instance was any public warehouseman mentioned by more than a half-dozen respondents. It would appear that significant opportunities exist for enterprising and dynamic public warehousemen to penetrate the warehousing market.

The role of the public warehouseman will continue to evolve during the decade of the 1980's. The modern public warehouse must continue to expand its product/service offering by providing additional services to its customers and assuming non-traditional warehousing functions—customer billing, packaging and labeling, and others. ■

PD MANAGERS LOOK AT PLANNING AND CONTROL

Physical distribution managers are all for sophisticated finance, economics and computer tools for management. But they have trouble understanding the computer experts and are unsure of how some of the sophisticated economic analyses work.

By ROGER E. JERMAN, RONALD D. ANDERSON and DAVID H. MAISTER

In the long march from loading dock to corporate manager's desk, physical distribution professionals are increasingly relying upon the tools of management science.

The trend of PD managers becoming more involved in corporate objectives, strategies and policies has been well-documented in recent times. Making the transition from the immediate problems of traffic to the longer-range puzzles of distribution requires a set of attitudes which will bring the distribution professional's attention to bear on some of the more sophisticated business techniques available.

To find out how at least some distribution managers view selected modern-day management issues, we sent questionaires to 1,000 selected physical distribution managers in Canada. We received 155 usable responses.

Before examining the respondents' views on the management science techniques covered, let's first look at the respondents themselves. Of them, 116 were employed by manufacturing firms. Another 34 were employed by merchandising firms, and the remaining 5 were unclassified as to employer.

The average number of years of distribution experience of the respondents was 18 years. Some 68 percent had attended college or attained one or more college degrees.

Twenty-four respondents indicated they held upper level management responsibility; 72 indicated middle level; 53 indicated operations level; and, 3 were unclassified.

In the questionnaire, we asked the respondents three questions. First, we asked, "What policies should govern the assignment of selected physical distribution costs?"

Second, "How compatible are computer models and personnel with physical distribution personnel?"

Third, "Are quantitative methods that may be applied to physical distribution activities perceived as useful?"

Each of these three broad questions was accompanied by a series of sub-questions. Respondents expressed their opinions on a five point scale: Strongly agree, agree, neutral, disagree, strongly disagree.

In the accompanying tables, we combined the categories of "strongly agree" and "agree." Similarly, the categories of "strongly disagree" and "disagree" were combined.

The first statement, concerning costs, sought to determine whether these physical distribution managers saw any fundamental differences in standard costing for manufacturing and standard costing for their activities (see Table 1). Seventy-six percent saw no difference, agreeing that a standard costing system would provide better decision-making information. Seven percent did not think better information would result.

Generally, accounting reports on profits for the firm and for profit centers follow "accepted accounting principles" which do not permit the inclusion of imputed interest costs of inventory. That is, the funds committed to inventory could earn interest, and thus the loss of these earnings could be reflected by charges to imputer interest.

Disagreeing with principles of accounting, the responding physical distribution managers felt that imputed interest should be considered a relevant cost in decisions affecting inventory size.

Sixty-eight percent agreed that imputed interest costs of inventory should be included in internal physical distribution reports. Nearly 8 percent disagreed.

A common costing practice is to deduct freight costs from sales to ar-

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FIG. 1

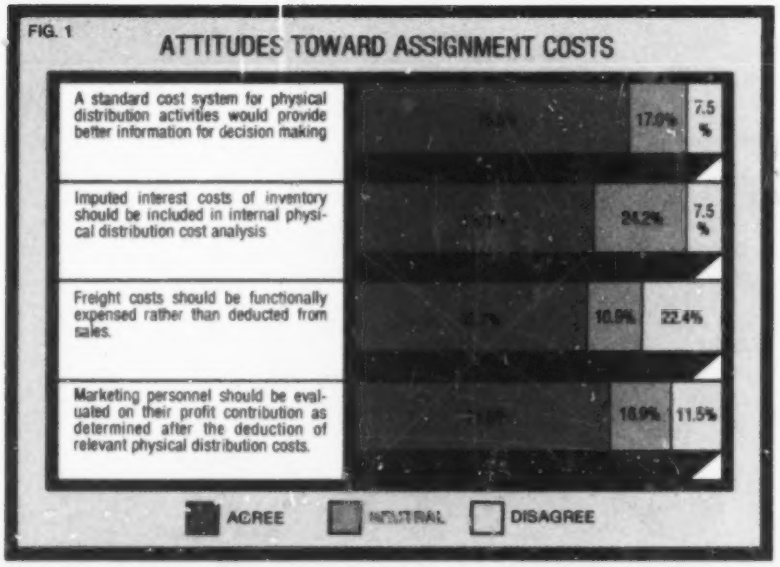


FIG. 3

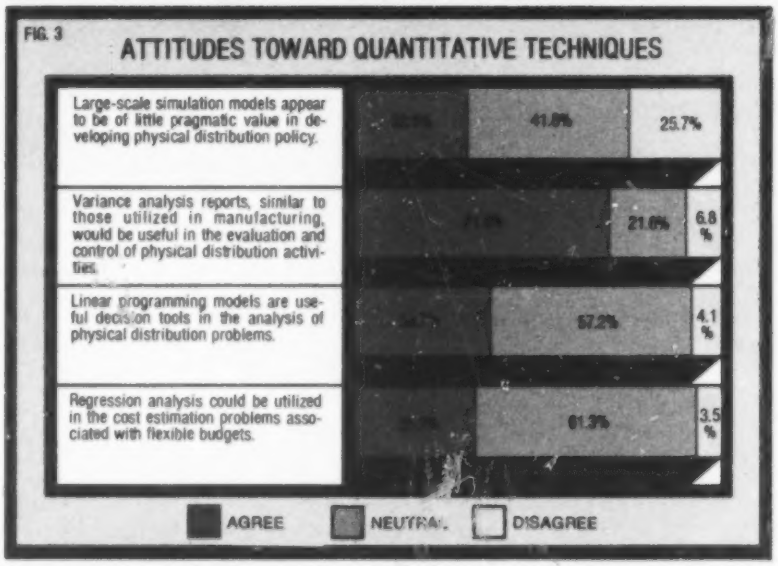
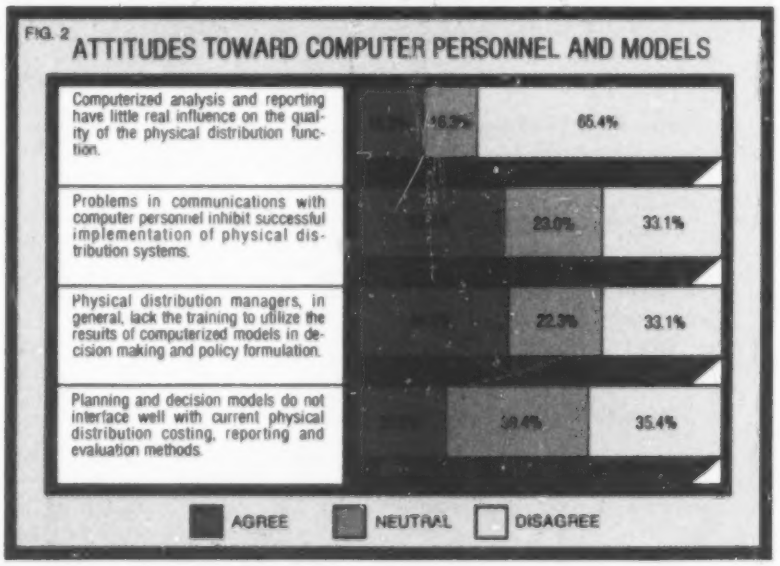


FIG. 2



PLANNING & CONTROL *continued*

rive at net sales, which serves as the basis for relating other costs. This practice implies that the firm cannot influence the transportation cost. Readers of this journal realize that is not the case.

In addition, this practice leaves those responsible for creating the demand for freight service free from responsibility for its incurrence, since performance is measured by net sales and the costs related to net sales.

Sixty-seven percent indicated that freight costs should be functionally expensed rather than deducted from sales, while 22 percent opposed functionally expensing freight.

Because of the trade-offs involved, physical distribution costs are affected by marketing decisions on product mix, package, customer mix, order size, channels, drop shipments and the location of solicited customers. Yet marketing personnel are usually evaluated and rewarded through incentive plans based on performance measured by actual sales volume against planned volume.

This can invite salespeople to view physical distribution costs as a free service, thus encouraging suboptimization.

Seventy-two percent of the distribution managers agreed that marketing personnel should be evaluated on their profit contribution after deduction of physical distribution costs. Nearly twelve percent disagreed and supported the present practice.

The second broad research question concerned the compatibility of distribution managers with computer personnel and models, and the perceived usefulness of computer output.

A 65 percent majority of the respondents thought their computerized analysis and reporting positively influenced the quality of the physical distribution function (see Table 2).

However, responses to other questions indicate some significant problem areas. Although no clear concensus emerged on the compatibility of models and people, 44 percent agreed that communication problems with computer personnel inhibit their physical distribution activities.

Thirty-three percent did not feel this was the case. Forty-five percent indicated that they or their fellow physical distribution managers did not have the training to use the results of computerized models. Thirty-three percent thought present distribution managers had sufficient training to utilize the results of computerized models in decision making and policy formulation.

The final question in this section asked distribution managers to evaluate how well planning and decision models interface with current physical distribution costing, reporting and evaluation methods. Thirty-five percent thought there was a reasonably good interface, while 25 percent were negative on the interface. Nearly 40 percent were neutral.

The split in opinions on the ability of computer personnel to communicate and the perceived lack of training of physical distribution people in use of models makes it possible to draw a rather significant inference: improved training of physical distribution managers *could* lead to improved communication with computer people and improved quality of interface of planning and decision models.

Actually, this is only one of several inferences which could be drawn. Another is that there is no necessary relationship between the opinions on the ability of computer personnel to communicate and the perceived lack of training of physical distribution people in the use of models. The data disclosed nothing to tie the two together.

Another alternative is that computer people and model builders may need more training in the functional area of physical distribution to improve the communication and model interface.

Whatever the possible inferences, it is clear that these physical distribution people are very sure of the value of computerized analysis and reporting. They see problems in communication with computer people, in the technical training of physical distribution people, and in interfacing models with physical distribution costing, reporting, and evaluation methods.

The third broad research question concerning the usefulness of quantitative models contained several statements relating to some commonly used quantitative methods of analysis (see Table 3). In general formalized quantitative methods applied to physical distribution were perceived as useful.

Simulation models received the poorest score, with 33 percent agreeing that large scale simulation models are of little pragmatic value in developing physical distribution policy.

Twenty-six percent disagreed, and nearly forty-two percent were neutral or had no opinion.

The participating physical distribution managers gave various analysis the strongest support. Seventy-two percent thought that various analysis reports, similar to those utilized in manufacturing, would be useful to them in the evaluation and control of their present physical distribution activities. Only seven percent disagreed.

The tools of linear programming and regression analysis both showed over fifty percent neutral responses. This indicates a high degree of uncertainty as to the usefulness of linear programming models in the analysis of physical distribution problems. Also, this reflects the uncertainty of use of regression analysis in the cost estimation problems associated with flexible budgeting when applied to the functional area of physical distribution.

Responses to statements in this survey of Canadian physical distribution managers help to answer the three broad questions posed at the beginning of this article.

First, what policies should govern the assignment of physical distribution costs?

Four statements concerning policies and practices that should govern assignment are perceived as desirable by the majority of the respondents:

(1) The development of standard cost system for physical distribution activities.
(2) The reporting of imputed interest costs of inventory.
(3) The functional expensing of freight costs.
(4) The deduction of relevant physical distribution costs in the determination of profit contribution for marketing personnel.

The responses indicate that physical distribution managers are more concerned with managerial accounting techniques which will provide needed facts than they are with accounting theory and generally accepted principles of financial accounting. The majority that viewed each of the above issues favorably will most likely initiate the changes necessary to establish as typical these currently uncommon policies and practices.

Second, how compatible are computer models and personnel with physical distribution personnel?

Responses to the statements underlying this question disclose that a large majority of the respondents agree that computerized analysis and reporting has influenced the physical distribution function.

However, opinion was divided concerning the interfacing of planning and decision models with physical distribution activities, the severity of communication problems with computer personnel, and the attitude of distribution personnel toward computerized models.

These results seem to reflect almost universal acceptance of the power and potential of computer-assisted decision analysis, with mixed results in the implementation stage. Further, it appears that none of the above three problems associated with implementation could be pin-pointed as the most important.

Third, are quantitative methods that may be applied to physical distribution activities seen as useful?

The answer is unclear.

Many did not respond to the statements related to this question, even though completing other parts of the questionnaire. Those who did respond reveal a great deal of uncertainty concerning the evaluation of linear programming, simulation and regression analysis.

High neutral percentages (noted in the last table, except for the variance statement) could be interpreted as revealing a lack of familiarity on the part of many of the responding physical distribution managers with linear programming and regression analysis.

Increased exposure of physical distribution managers to these techniques could cause comparable studies in the future to yield drastically different results. ■

NOTE

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Chilton's

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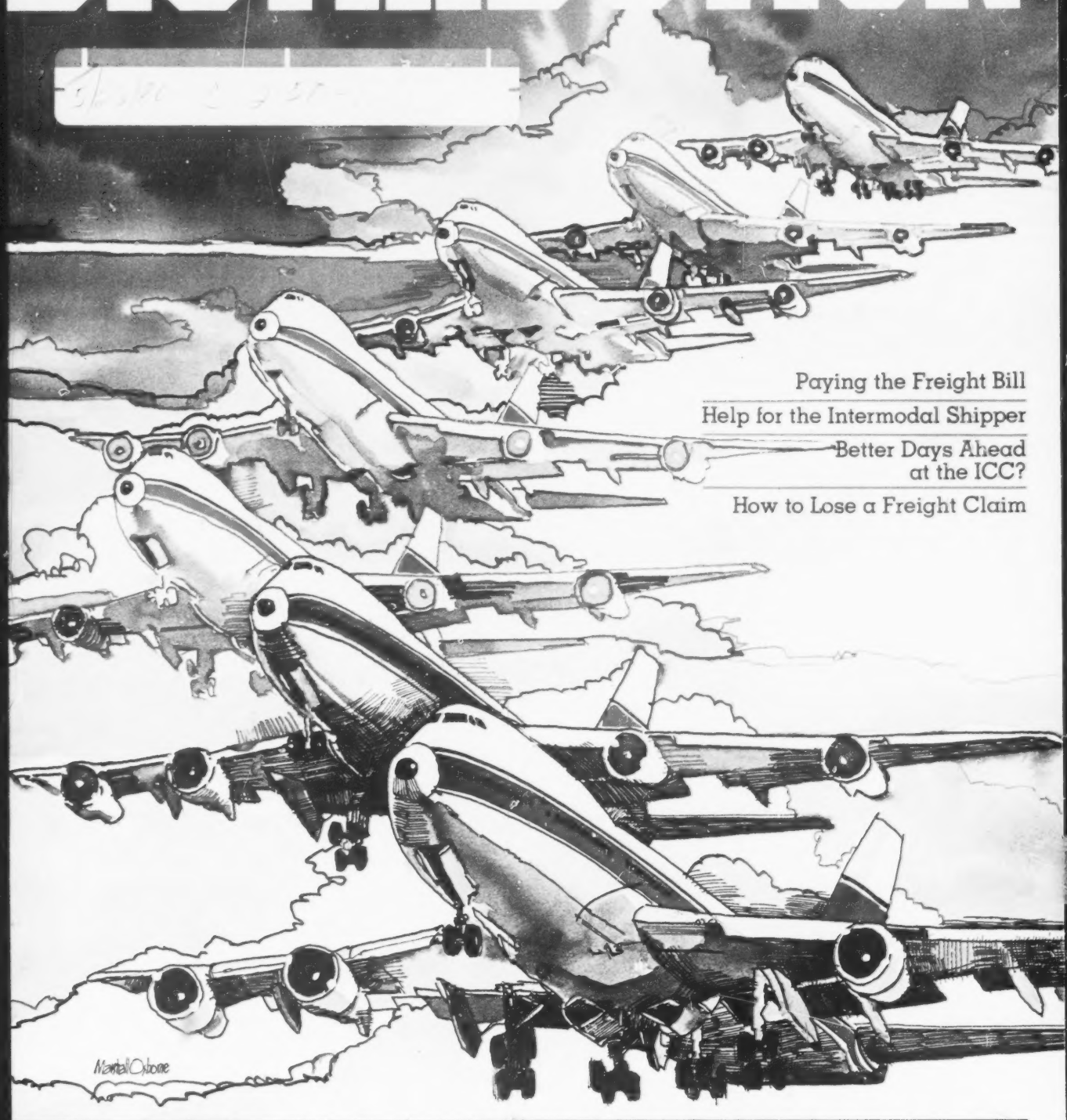

Paying the Freight Bill

Help for the Intermodal Shipper

Better Days Ahead at the ICC?

How to Lose a Freight Claim

THE OUTLOOK FOR DOMESTIC LIFT

Shifting Air Cargo Patterns □ Coping with the Changes

VOLUME 79, NUMBER 5

Chilton's

MAY 1980

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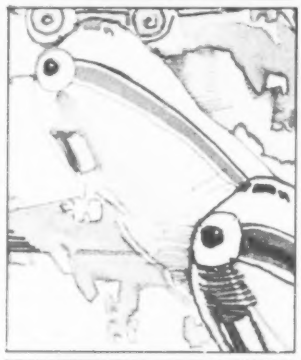

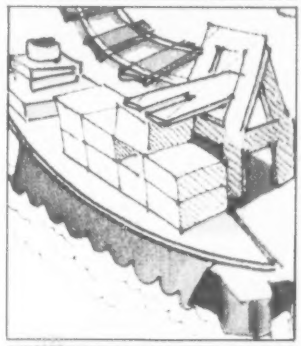

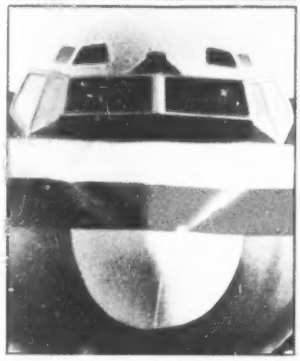

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If Howard scraps the House legislation, H.R. 6418, and offers the Senate bill for committee consideration, the chances for final Congressional adoption of broad competitive reforms would increase significantly. However, the trucking industry, represented here by the American Trucking Associations, is thought to have stronger support in the House. Pro-industry amendments offered to whatever bill the House considers are expected to have a better chance of acceptance.

The Senate bill, featuring new competitive reforms for the trucking industry, was a setback blow to motor carrier interests. Any hope of a Senate rejection of S. 2245, introduced by Cannon and Oregon Republican Bob Packwood, were effectively dashed when a key food hauling amendment was secured.

The floor amendment by Sen. Ernest Hollings (D-S.C.) sought to strike a proposal by Illinois Republican Adlai Stevenson that would have removed government regulations on the hauling of all food products, including processed and packaged items. Presently, the Interstate Commerce Commission exempts from regulation only unprocessed agricultural goods.

Hollings claimed that deregulation of processed foods would jeopardize 21 percent of trucking industry tonnage and up to 10 percent of revenues by opening up this previously regulated freight to owner-operators and independents.

Packwood obviously growing weary of Hollings' insurgency, shot back, "That business won't be lost to the regulated carriers. It simply means that they will have to compete for it for a change."

The Hollings amendment was defeated by a relatively close 47-39 vote. The attempt to reinstate regulation for processed foods was the key issue for ATA and its defeat signalled what Packwood later called "momentum" toward passage of strict legislation.

Another amendment to remove virtually all entry controls for carriers serving communities of 50,000 or less, introduced by Sen. Harrison Schmitt (R-N.M.), was defeated, 51-35. Schmitt said his proposal was designed to assure service to small communities by further easing entry rules for new carriers.

Schmitt said the amendment was needed because most carriers are not now serving all communities listed in their certificates. Hollings said the amendment would only increase pressure among a larger number of firms for a limited amount of freight. It was one of the South Carolina senator's few victories.

An amendment by Senator Cannon to place the motor carrier portion of trailer-on-flatcar traffic (TOFC) back under ICC regulation passed. A provision added onto the bill in the Commerce Committee would have removed restrictions on traffic moving by motor vehicle incidental to movement by rail.

Cannon sought to remove the provision because of a lack of information on piggyback transportation. Cannon did agree to hold hearings in the near future on TOFC movements and to consider legislation at that time.

Following the floor debate Cannon said, "This is a great day in the area of regulatory reform. It gives an opportunity for all people to get into an industry that has been closed for a long time. It's great for the American consumer."

DISTRIBUTION PERFORMANCE INDEX

The Distribution Performance Index (DPI) is designed to measure the economic health of the distribution industry. The DPI combines incoming activity indicators with outgoing activity indicators. Truck shipments rose to a level of 134.8 in May, a record high. The DPI rose by one point to 135.6 in June. Last year was a record year for shipments, a fact in the calculation of shipments contained in both indicators. A general rule says that less, most likely as a result of the trucking strike, but the small increase portends possible decreases in the July numbers. One shipper stated, "We don't ship as much as we used to. I have to keep costs down so I consolidate orders and ship in truckload amounts. My customer service standards are not met, but I have to keep costs down."

All shipments and new expected to decline through June. The decrease is due to the use of cargo control by shippers to ship small packages and a lessening of small shipments. Air cargo is expensive and firms are cutting costs. Water shipments remain constant for the period, but are expected to decrease as firms reduce their purchases of raw materials. The decline has already hit rail shipments, which are forecasted to fall from a level of 113.4 in May to 110.4 in June. One shipper commented that "Our raw material costs are going through the roof. We have to keep costs down, and our demand is off. Our only alternative is to sell less a unit we are doing so." 1980 will be the year of retrenchment.

TIME FLIES SO SHIPPERS USE AIR FREIGHT

Time is a commodity that can't be touched, tasted, smelled, seen or heard. Yet the ticking of the clock is a cost factor which puffs up the price of every product shipped.

Let a crucial shipment of parts fail to make a production line in time and suddenly a company's costs inflate and rise out of sight. Let a consignment of printing plates be delayed, and a printer penalizes his client by charging a premium price. Let a shipment of promotional materials fall off schedule, and a fortune in opportunities is lost.

That's why air freight ranks high in terms of the number of companies which use it. In fact, DISTRIBUTION's survey of U.S. manufacturers found that more of them use air freight than any other mode—with the lone exception of regulated motor carriage.

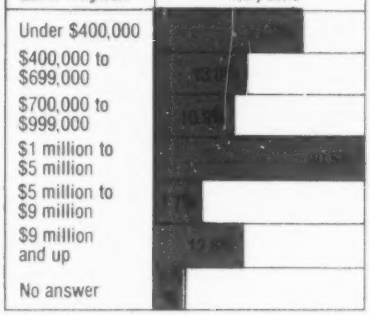
By way of our survey, 2,122 distribution professionals discussed the subject of air freight with us. Of that group, some 73 percent—1,535 respondents—said that air freight was purchased by someone in their shipping location. In comparison, 99 percent of the group said their shipping location uses regulated motor carriage, while 68 percent use rail. Another 45 percent use ocean carriage and 11 percent ship via barge.

While the use of air freight is broad across the ranks of these manufacturing companies, it isn't deep. On average—and including all 2,122 respondents—air freight eats up 4.5 percent of the freight bill at each shipping location.

To get a better look at the air freight user, we zeroed in on those respondents who spent more than the average 4.5 percent of their freight bill on air. Culling out below-average air freight users left us with 997 heavy users of air freight.

A study of these shippers turns up some interesting statistics. For instance, the average *total* freight bill at the locations of these shippers was a hefty $3 million. The heavy users spent an average of some 15 percent of that on air freight.

Annual Freight Bills Of Heavy Users Of Air Freight



Part Of Freight Bills Devoted To Air Freight

Pct. of Bill	Pct. of Respondents
1-9	40.7%
10-19	29.0%
20-29*	12.8%*
30-39	5.8%
40-49	2.3%
50-59	2.1%
60-69	2.6%
70-79	1.1%
80-89	1.4%
90-100	2.1%

How to read: *12.8% of the respondents spend from 20-29% of their total freight bill on air freight.

Due to the premium price of air freight, it is not surprising that the greatest numbers of shippers spend the least amounts of their freight dollars on air. For instance, of the 997 heavy users of air freight, nearly 41 percent spend between 4.5¢ and 10¢ of each freight dollar on air.

The second largest concentration of respondents, 29 percent, spend between 10¢ and 20¢ of their freight dollar on air. Another 13 percent spend between 20¢ and 30¢ of their freight dollar on air. That leaves less than 18 percent of the respondents who spend more than 30 percent of their freight outlays on air.

In other words, the survey confirms what many have believed: Shippers tend to use air freight, but they tend to restrain the use of it where they can.

There seems to be little correllation between the size of a shipper's total freight bill and his use of air freight. The behemoth corporation, in terms of freight expenditures, is as likely to ship via air as the Lilliputian company. For example, our survey found the greatest number of heavy air freight users have annual freight bills ranging from $1 million to $5 million. Some 31 percent of the respondents fit this category.

Next were the shipping points with the smallest freight bills—under $400,000. Some 22 percent of these use air freight. Running neck and neck for third place are companies with freight bills totaling between $400,000 and $700,000 (13 percent are heavy users) and those who spend more than $9 million on freight (12.5 percent are heavy users of air).

On average, each distribution department in which these respondents are located has eight members. Again on average, three of those department members report directly to the person who answered our questionnaire. The average shipping location covered in the survey is the control center of four or less shipping points.

It's interesting to look at which activities the respondents said their department is engaged in. Overwhelmingly, the respondents said their departments are involved in customer service—79 percent of those surveyed said so.

Another 47 percent said the department participated in selecting distribution points. And 32 percent said the department was involved in setting inventory levels.

Smaller percentages of those surveyed admitted involvement in marketing tactics or strategies. For example, 12 percent participate in targeting domestic markets, and 9 percent are involved in targeting foreign markets. Another 11 percent participate in the timing of special sales, while 9 percent are involved in sales forecasting.

In short, then, most respondents list customer service as a main activity of their day. This is not surprising, since customer service is another term for getting goods to the buyer on time. And the time factor is the primary underlying reason why shippers are willing to pay premium rates to send cargo by air. □

NOTE

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JUNE 1980

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FREIGHT SECURITY: IS THIS ITS FATE?

SPECIAL REPORT:

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One Congressman and many others say shippers are part of a "silent conspiracy" that condones crime

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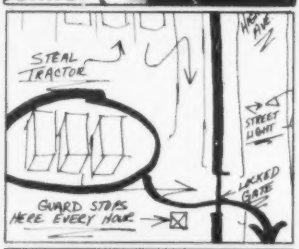

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The Cover: *The walls of distribution security look solid, but they've been breached. At least a billion dollars worth of goods are diverted from the stream of U.S. distribution every year.*

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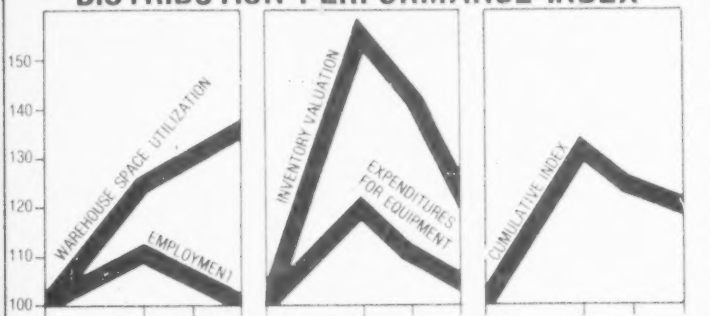
DISTRIBUTION PERFORMANCE INDEX



CATEGORY	1976	MAY 1980	JUN 1980	JUL 1980
Whse. space utilization	100	125.0	130.0	135.0
Employment	100	111.0	105.0	100.0
Inventory valuation	100	155.0	143.0	125.0
Expenditures for equipment	100	119.9	110.0	105.0
Cumulative index	100	131.0	125.0	120.0

Down . . . Down . . . Down . . . seems to be the trend for the economy in the forthcoming months. Interest rates are plummeting at record levels from their April high of near 20 percent and should level off to around 13 percent by mid year. Prices are also beginning to moderate with the April wholesale price index increasing by 0.6 percent after four successive months above one percent. Employment is also declining with the unemployment level expected to reach nine percent by years end. The economy is falling into a classic recession which should be as long and as deep as the 1974-75 slowdown.

The distribution sector of the economy is exhibiting a similar decline. The June Distribution Index shows a cumulative drop of more than 6 points from the May level with the July level to fall to 120.0. Many shippers are experiencing dramatic drops in orders as customers cut back purchases because of the high cost of money. One shipper indicated that "My orders are off by more than 30 percent from last year. Our inventories are lower because we anticipated the decline, but our profits are dangerously low. This is a tough period for us."

All of the categories in the June index showed declines with expenditures for materials handling dropping to a level 110.0 for June and are forecasted to decline even further to 105.0 for July, 1980. This is due to the decrease in major capital expenditures by shippers. Employment in the distribution sector is also expected to drop dramatically with the level going from 111.0 in May to a forecasted 100.0 in July, 1980. The expected decline in prices is depicted in the dramatic drop in inventory valuation from 155.0 in May to 125.0 in July. Warehouse space utilization is expected to rise during the period, for shipper inventories will not move quickly. Space utilization is expected to increase by 10 points from May to July 1980. As one public warehouseman stated, "When the economy gets bad, our business goes up. We are countercyclical to the trends in the industry. But we feel sorry for our customers. Their merchandise is just not moving."

One factor seems to be happening in this recession—shippers were more prepared for it than for similar times in the past. The reason is due the better planning shippers did to deal with such situations. Inventories are as much as 40 percent lower than during the 1974-75 recession. While customer service levels have fallen somewhat, firms found that customers are more willing to accept delays or reduced shipments if it means lower costs.

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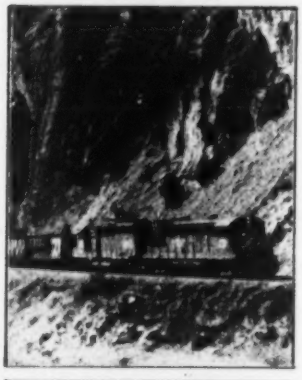

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The Cover: The Missouri Pacific is just one of a long list of railroads developing contract arrangements with shippers of bulk commodities. The rates are not always lower, but the service is designed for a shipper's needs.

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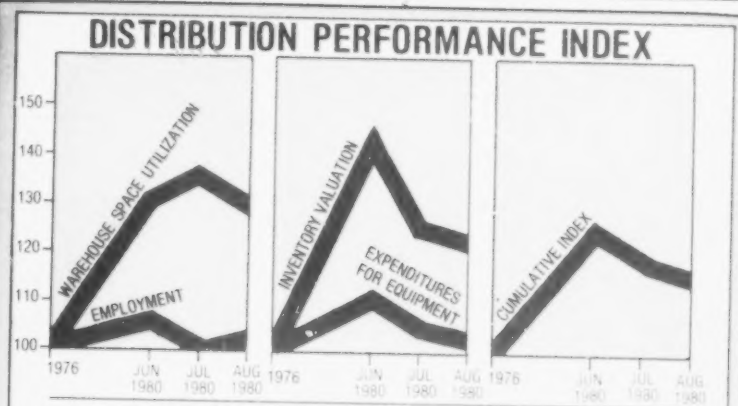

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Inventory valuation	100	143.0	125.0	123.2
Expenditures for equipment	100	110.0	105.0	104.1
Cumulative index	100	125.0	120.0	118.6

The credit controls announced by the Federal Reserve in April have had a significant effect on slowing down the economy as well as the inflation rate. The inflation rate has dropped off by more than eight points to an annual rate of 10.6 percent through July 1980. In addition, consumer demand has softened to the point where the recession could be worse than the one experienced in 1974-75. Shippers are reporting significant drops in orders and have slowed down their distribution operations accordingly. As one shipper stated: "My firm has reduced inventories and cut back on shipments in order to keep costs down and ride out the rest of the downturn."

The economic slowdown is demonstrated in the August Distribution Index *with the cumulative index dropping from 120.0 in July to 118.6 in August. The decrease is reflected in the drop in warehouse space utilization from 135.0 in July to 130.0 in August. The cause for this decrease is due to the paring down of inventories by manufacturers to reduce their holding costs. During the 1974-75 recession, warehouse space utilization was much higher than now. The reason for this is that shippers were more prepared for the recent slowdown than the one in 1975.*

Employment in the distribution field rose slightly from a level of 100.0 in July to 101.0 in August 1980. This cannot be regarded as a significant increase, but rather as a seasonal adjustment in this area. The rate of inventory valuation also decreased, reflecting the slowdown in the inflation rate. It declined from a level of 125.0 in July to 123.2 in August. Shippers are also cutting back on their purchases of major equipment, with the decrease in expenditures for materials handling equipment going from 105.0 in July to 104.1 in August.

The general response of shippers to the recession is one of cautious optimism. While many feel the recession is not over, they regard it as a kind of necessary adjustment. As one shipper stated: "My firm doesn't like to see orders for our goods fall off, but inflation was getting out of hand. Short-term slowdown in exchange for long-term growth seems worth it."

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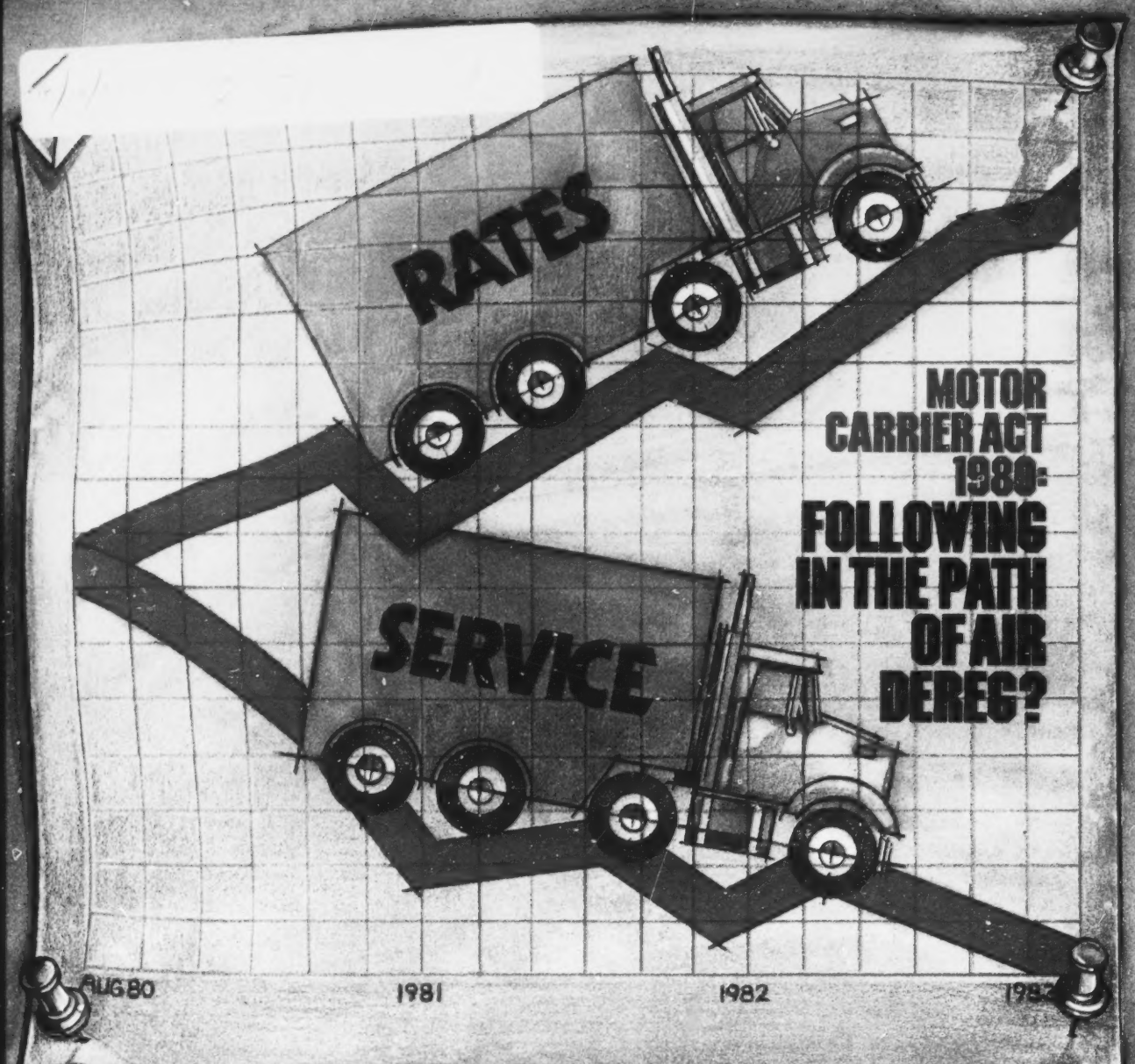

Top Shippers Talk About The Big Issues / The Rate Outlook After Deregulation

Air Express Services Updated

CASEBOOK: New Ideas in Distribution Productivity

SOURCEBOOK: Index of Distribution Information

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VOLUME 79, NUMBER 9
Chilton's
SEPTEMBER 1980

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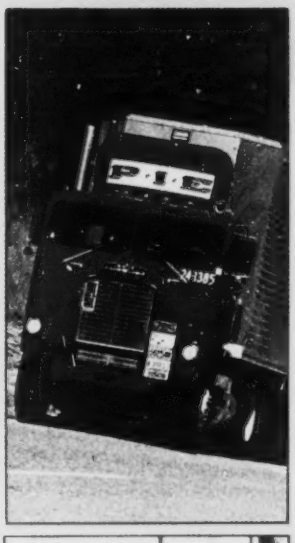

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The Cover: *Shippers fear motor carrier deregulation will make their costs race and their service from carriers skid, repeating the trends of the air cargo industry following deregulation.*

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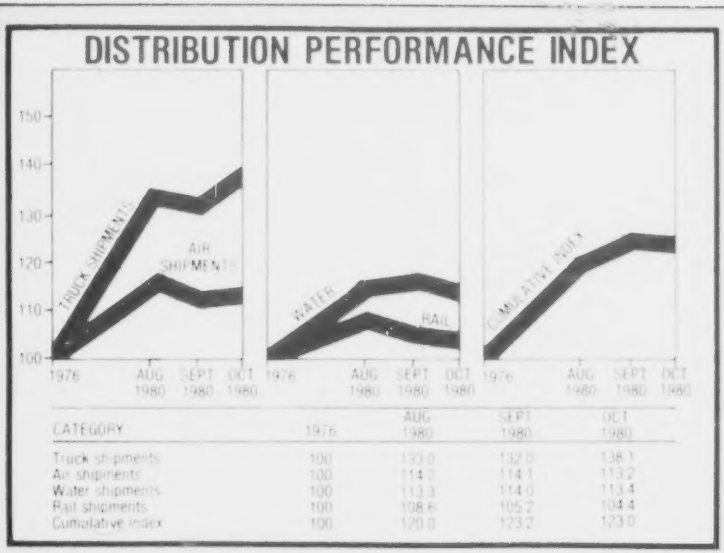

CATEGORY	1976	AUG 1980	SEPT 1980	OCT 1980
Truck shipments	100	133.0	132.0	138.1
Air shipments	100	114.2	114.1	113.2
Water shipments	100	113.3	114.0	113.4
Rail shipments	100	108.6	105.2	104.4
Cumulative index	100	120.0	123.2	123.0

Change seems to be the correct word for the future of the U.S. economy. Industrial production is beginning to pick up, housing starts are beginning to rebound, and inflation seems to be moderating.

The recovery will be a slow one and economists are predicting a rebound by the first part of 1981. Inflation has dropped from an adjusted annual rate of 18 percent to 12 percent in less than 4 months. The prime rate has also dropped from a high of 20 percent in April to 11 percent in July 1980. Consumer demand is definitely down, with retail sales off by more than 35 percent from last year.

The Distribution Index is reflecting this decline. Truck shipments dropped from a level of 133.0 in August 1980 to 132.0 in September. This sector is expected to rebound, with a forecast increase to a level of 138.1 through October.

Air shipments are also down and have been falling since April 1980. They are forecast to fall to 113.2 in October 1980.

One shipper in the survey stated that his firm was in a "holding pattern until things get better. We insist on full truckload deliveries and have increased our customer service shipment times."

Water and rail shipments are also off. Rail shipments are forecast to fall to a level of 104.3 in October 1980. This mode has experienced a decline since May, when the index reached a level of 110.4 Water shipments have shown a somewhat zig-zag pattern since mid-year, with shipments rising and falling by only moderate amounts. They are expected to fall to a level of 113.4 through October.

The cumulative index has followed the trend in the economy, falling from 131.3 in March. The index is expected to be 123.0 in October 1980. As one shipper stated. "It can't get any worse. Things went down and now they are going up. I only hope they go up far enough. My firm is hurting right now."

NOTE

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Chilton's
OCTOBER 1980

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FOR TRAFFIC & TRANSPORTATION DECISION MAKERS

THE EXPORT DECISION: Distribution's Vital Role

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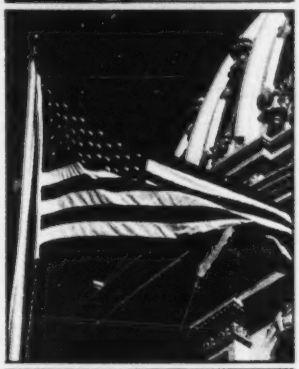

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be unable to meet the future needs of a growing America," a position paper from the governor's office says.

"Governor Reagan believes that present levels of public and private investment will not preserve the existing system," the candidate's office says. "For example, highways are deteriorating twice as fast as they are being rebuilt, and inadequate rehabilitation will soon cost users more in reduced service levels than the cost of adequate rehabilitation.

"Governor Reagan believes that government overregulation is inhibiting the return on investment necessary to attract capital for future growth and jobs creation," his office continues. "He realizes that a maze of Federal agencies, Congressional committees and conflicting policies is driving up costs and retarding innovation.

"Consequently, the role of government in transportation must be redefined. Governor Reagan would use his power as President to utilize the forces of the free market to promote competition, reduce costs and improve the return on investment to stimulate capital formation in the private sector."

JOHN ANDERSON

"The quality of our transportation network assumes a fundamental importance" in light of special U.S. requirements for the export of coal and wheat, an aide to the independent candidate says.

The transportation infrastructure, Anderson says, was designed at a time of declining fuel prices. It must be adapted to a new period of growing energy scarcity and increasing prices, he believes.

The government has used the railroad industry to promote economic and social goals, the Illinois congressman charges, often to the extent that shippers on profitable, heavily traveled routes have been forced to cross-subsidize shippers on less remunerative lines.

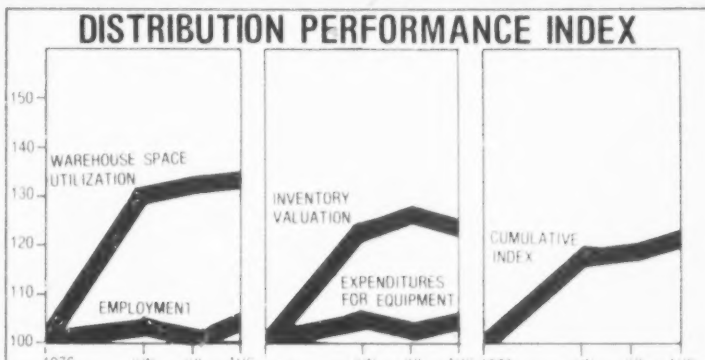
The independent candidate wants the railroads freed from "anachronistic regulation." The government must shift its focus "from preserving unprofitable portions of the system to preservation of the system itself," his office says.

Specific Anderson proposals include increased flexibility to determine pricing and operating policies, and guaranteed rate protection for shippers of bulk commodities who are captive to rail carriage over long distances.

If elected, Anderson would also: abolish collectively set rates; provide funds to states for the purchase of abandoned lines; refund investment tax credits to provide additional investment incentives; and encourage the future formation of several long-haul rail lines to maximize the efficiency of uninterrupted rail movements.

Anderson would support Conrail at least until the U.S. Railway Association has completed its study of the troubled line and has made recommendations to Congress, his office reports.

To revitalize the nation's ports, Anderson would establish a Coal Export Authority within the Department of Commerce. This body, his office says, would explore the need for improved port facilities to accommodate coal for export and coastal movements.



CATEGORY	1976	JUN 1980	JUL 1980	AUG 1980
Whse. space utilization	100	130.0	135.0	130.0
Employment	100	105.0	100.0	101.0
Inventory valuation	100	143.0	125.0	123.2
Expenditures for equipment	100	110.0	105.0	104.1
Cumulative index	100	125.0	120.0	118.6

The fourth quarter of 1980 will historically be referred to as the "bottoming out" period. The deepest and shortest recession in U.S. history is coming to an end and all of the economic indicators are forecasting a favorable 1981. Inventories are being reduced as consumer demand begins to rise. Shippers are expected to slowly expand their shipments in the last quarter of 1980, and gradually increase the rate during the 1st quarter of 1981. Industry managers are exhibiting more caution in this recovery, than during the same period in the 1973-74 recession. The reasons for the slow recovery are the high cost of investment capital, the uncertain political environment and the lack of any real jump in demand. As one distribution manager stated: "We can't afford to be overly optimistic. It's too risky."

The Distribution Index *is forecasted to rise to a level of 121.1 through October. This modest growth is also exhibited in the moderate rise in warehouse utilization which will rise to a level of 132.2 in October. Similarly, employment is expected to rise to a level of 103.3. The expected increase in inflation which will average 12 percent in 1980 is reflected in the rise in inventory valuation to 128.2 through October 1980. Shipper confidence is gradually improving as reflected in the modest growth in expenditures for materials handling equipment. Shippers are willing to expand their distribution operations in preparation for the forecasted recovery.*

The Fall quarter of 1980 shows promise for the future, but not all companies are optimistic. As one distribution executive stated: "You can't trust economic forecasts. We got stung before when we jumped too quickly. This time, caution prevails in my firm."

Correction

In the September issue, we incorrectly reported that AG Carriers, Inc. is a wholly owned subsidiary of Citrus Central Company. AG Carriers is, instead, a motor carrier cooperative organized by twenty-four U.S. producers of agricultural products.